

ICBC RELEASES SECOND QUARTER FINANCIAL SUMMARY

On 4 December 2023, ICBC released its minimal second quarter financial summary for the current fiscal year.¹ The statement of operations reflects the new IFRS accounting standards for insurance entities, including a restatement of the 2022 comparable numbers.²

The public auto insurer forecasts a corporate year-end break even net income position.³ As usual, ICBC did not provide any service measures (such as policies purchased or the number and type of claims) by which one might view the financial results in greater clarity.

The Half-Year (H1) Report

For the period 1 April to 30 September 2023, the corporate net income loss of \$11 million was a significant improvement over the \$768 million loss recorded for the prior year six month period. The primary reason for the improvement was an \$800 million decline in the loss on financial investments. Last year ICBC reported a loss of \$1.0 billion in the market value of its investments due to the increase in interest rates (which reduces the value of existing bonds), and a depressed equity market.⁴ The current loss was \$200 million.

During the period combined assets declined by \$1.7 billion, as did the liabilities. The equity as of 30 September was \$4.0 billion, only \$12 million less than the equity recorded as of 31 March 2023. The provision for unpaid claims, mostly comprised of tort claims, declined by \$600 million as these claims rolled-off. This reduction in the liabilities helped to increase the key solvency metric, the Minimum Capital Test, to 115% for the corporation.

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https://assets.ctfassets.net/nnc41duedoho/2fZOVFCGvr29Ydlfko9wCE/f0a0584b9c8c40ed46e7cfc6631d10cf/Stmt_Ops-Sept23.pdf

² The main difference is that the change in the market value of investments is now included in the calculation of the net income, rather than the total comprehensive income. This has no effect on equity, but will likely make the annual change in the net income more volatile.

³<https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/quarterly-reports/2023-24-q2-report.pdf> p. 16.

⁴ In the April-September 2022 period the Bank of Canada raised its policy rate by 275 points, compared to only 50 points during the first six months of the current year.

Basic Insurance

The Basic program reported a net income of \$138 million, compared to a loss of \$395 million in the prior year. Table 1 shows the half-year results for 2022 and 2023.

TABLE 1—BASIC H1 SUMMARY (\$=million)

	H1 2022	H1 2023	Change
Net Prem. Earned	1,623	1,651	28
Other Revenue	32	54	22
Investment Inc.			
Loss of Value	(687)	(135)	552
Other	141	140	(1)
Net	(546)	5	551
Financial Expense	40	88	48
Claims Current	1,197	1,201	4
Prior Adj.	(149)	(151)	(2)
Total	1,048	1,050	2
Admin. & Other	340	347	7
Non-Insurance	76	87	11
Net Income	(395)	138	533

Source: ICBC Second Quarter Report for 2023/24.

The minor change in net premiums written reflects the zero increase in rates for 2023/24 compared to the previous year. Surprisingly, the claims costs were practically the same as the prior period despite inflationary increases. ICBC did not provide claims data to show whether the reason was due to stable claims or lower costs per claim. The positive swing in investment income is reflected in the upturn in net income.

The minimum capital test ratio rose from 129% as of 31 March 2023 to 144% as of 30 September 2023. This is a positive development.

Optional Insurance

The net operating loss of \$139 million for the first six months was an improvement compared to the \$373 million loss for the previous H1 period. Again, this positive change of \$234 million can be attributed to the \$253 million improvement in the investment income.

Net premium income increased by 12.2%, which was not explained by ICBC. Unlike the Basic program, current year Optional claim costs increased by 22.4% for the period

compared to the prior year. ICBC stated that material damage costs continues to pressure the bottom line.

TABLE 2—OPTIONAL H1 SUMMARY (\$=million)

	H1 2022	H1 2023	Change
Net Prem. Earned	1,052	1,180	128
Other Revenue	20	37	17
Investment Inc.			
Loss of Value	(316)	(68)	248
Other	66	71	5
Net	(250)	3	253
Financial Expense	16	46	30
Claims Current	762	933	171
Prior Adj.	45	(37)	(82)
Total	807	896	89
Admin. & Other	373	427	54
Non-Insurance	---	---	
Net Income	(373)	(149)	224

Source: ICBC Second Quarter Report for 2023/24.

The minimum capital test ratio declined from 70% as of 31 March 2023 to 58% as of 30 September 2023. This is a negative development.

Summary

The H1 results indicate a period of relative calm for ICBC’s claims costs. The recent improvement in the equity financial markets suggest that the public auto insurer may finish the current fiscal year with a relatively healthy financial condition for the Basic program. The Optional program, where property damage claims drive the costs, needs to be watched.

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The writer is a retired senior BC government public servant whose paper describing the BC government’s manipulation of the finances of BC Hydro from 2008 to 2014 was published by BC Studies in November 2016. BC Studies published his paper on the 40-year financial history of ICBC in 2013. He is an intervener in the BC Utilities Commission’s reviews of ICBC’s and BC Hydro’s rate requests.

